

CITY OF SULPHUR, LOUISIANA



Annual Financial Report For Fiscal Year Ended June 30, 2014

Prepared by
Department of Finance

CITY OF SULPHUR, LOUISIANA
ANNUAL FINANCIAL REPORT
Year Ended June 30, 2014
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CITY OF SULPHUR, LOUISIANA

June 30, 2014

MAYOR

The Honorable Christopher L. Duncan

CITY COUNCIL

Dru Ellender
Dennise Bergeron
Veronica Allison

Stuart Moss
Randy Favre

LEGAL COUNSEL

Mitch Redd - City Attorney

STEVEN M. DEROUEN & ASSOCIATES

Certified Public Accountants

4827 IHLES ROAD
P. O. BOX 4265
LAKE CHARLES, LA 70606
(337) 513-4915 OFFICE/ (337) 205-6927 FAX
steve@jderouen CPA.com

Member American Institute of
Certified Public Accountants

Member Louisiana Society of
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Honorable Chris Duncan, Mayor
And City Council Members
City of Sulphur, Louisiana

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Sulphur, Louisiana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units

The financial statements do not include financial data for the City's legally separate component units. Accounting principles generally accepted in the United States of America require financial data for the City's legally separate component units to be reported with the financial data of the City's primary government. The amount by which this departure would affect the assets, liabilities, net position, revenues, and expenses of the government-wide financial statements has not been determined.

Adverse Opinion

In my opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion" paragraph, the financial statements referred to above do not present fairly, the financial position of the aggregate discretely presented component units of the City of Sulphur, Louisiana, as of June 30, 2014, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the primary government of the City of Sulphur, Louisiana, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-12 and the required supplemental information on pages 48-49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

The combining nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the combining nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated December 16, 2014, on my consideration of the City of Sulphur, Louisiana's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Sulphur, Louisiana's internal control over financial reporting and compliance.

Steven M. DeRouen & Associates

December 16, 2014
Lake Charles, Louisiana

CITY OF SULPHUR, LOUISIANA MANAGEMENT DISCUSSION AND ANALYSIS

Within this section of the City of Sulphur, Louisiana's annual financial report, the City's management is pleased to provide this narrative discussion and analysis of the financial activities of the City for the fiscal year ended June 30, 2014. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City exceeded its liabilities by 87,468,451 (net position) for the fiscal year reported. Of this amount, \$6,717,620 represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- Total revenues of \$30,019,303 were less than total expenses of \$31,303,096, resulting in a current year decrease in net position of \$1,283,793.
- Total sales taxes revenues for the current fiscal year were \$14,799,369, an increase of \$823,061 (5.9 percent) over the prior fiscal year.
- Total net position are comprised of the following:
 - (1) Capital assets, net of related debt, of \$80,032,958 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
 - (2) Net position of \$717,873 are restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations.
 - (3) Unrestricted net position of \$6,717,620 represent the portion available to maintain the City's continuing obligations to citizens and creditors.
- The City's governmental funds reported total ending fund balance of \$13,549,905 this year of which \$46,046 is nonspendable, \$717,873 is restricted for debt service and law enforcement, \$848,473 committed for capital projects, \$3,878,859 is assigned for capital projects and \$8,058,654 is unassigned. This compares to the prior year fund balance of \$12,564,984 reflecting a decrease of \$984,921 during the current fiscal year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$8,058,654 or 43.7% of total General Fund expenditures and 42.0% of total General Fund revenues.

The above financial highlights are explained in more detail in the "financial analysis" section of this document.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City of Sulphur's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. Comparative data is presented when available.

CITY OF SULPHUR, LOUISIANA
MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)

GOVERNMENT-WIDE FINANCIAL STATEMENTS. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused employee leave).

Both government-wide financial statements distinguish governmental activities of the City that are principally supported by taxes and intergovernmental revenues from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the City include general government, public safety and streets. The business-type activities of the City of Sulphur include the water and sewer systems.

The government-wide financial statements are presented on pages 15 through 16 of this report.

FUND FINANCIAL STATEMENTS. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Sulphur, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Sulphur maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, public improvement capital project fund, and street improvement capital project fund, which are considered to be major funds. Data from the other six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining schedules elsewhere in this report.

The basic governmental fund financial statements are presented on pages 18 through 20 of this report.

CITY OF SULPHUR, LOUISIANA
MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)

Proprietary funds. The City of Sulphur maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water and sewer services. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City of Sulphur uses an internal service fund to account for its workers' compensation program. Because this service predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer services and the workers' compensation program. The City's water and sewer fund is considered to be a major fund.

The basic proprietary fund financial statements are presented on pages 21 through 24 of this report.

NOTES TO THE BASIC FINANCIAL STATEMENTS. The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 25 through 46 of this report.

OTHER INFORMATION. In addition to the basic financial statements and accompanying notes, this report also presents required supplemental information concerning the City's budget presentations and progression in funding other postemployment benefits (OPEB).

Required supplemental information can be found on pages 48 through 49 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information.

Combining and individual fund statements for non-major funds can be found on pages 51 through 52 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. At the close of the most recent fiscal year, the City of Sulphur's assets and deferred outflows of resources exceeded liabilities by \$87,468,451.

CITY OF SULPHUR, LOUISIANA
MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)

City of Sulphur's Net Position

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
ASSETS						
Current and other assets	\$ 19,159,212	\$ 18,676,796	\$ 5,631,105	\$ 7,494,746	\$ 24,790,317	\$ 26,171,542
Capital assets	33,264,745	32,580,385	49,359,573	51,177,368	82,624,318	83,757,753
Total assets	52,423,957	51,257,181	54,990,678	58,672,114	107,414,635	109,929,295
LIABILITIES						
Current liabilities	2,181,254	2,569,053	713,814	808,838	2,895,068	3,377,891
Long-term liabilities	11,162,335	9,720,092	5,888,781	8,079,068	17,051,116	17,799,160
Total liabilities	13,343,589	12,289,145	6,602,595	8,887,906	19,946,184	21,177,051
NET POSITION						
Investment in capital assets, net of debt	34,730,212	34,022,120	45,302,746	44,719,863	80,032,958	78,741,983
Restricted	717,873	515,593	-	-	717,873	515,593
Unrestricted	3,632,283	4,430,323	3,085,337	5,064,345	6,717,620	9,494,668
Total net position	\$ 39,080,368	\$ 38,968,036	\$ 48,388,083	\$ 49,784,208	\$ 87,468,451	\$ 88,752,244

The largest portion of the City's net position (91.5%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt (still outstanding) that was used to acquire those assets. The resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The City uses capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

At the end of the current and prior fiscal years, the City was able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

City of Sulphur's Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues						
Programs:						
Fees, fines and charges for services	\$ 3,104,131	\$ 2,930,122	\$ 5,497,421	\$ 5,348,505	\$ 8,601,552	\$ 8,278,627
Operating grants	249,201	205,367	-	-	249,201	205,367
Capital grants	1,771,163	1,406,200	-	44,127	1,771,163	1,450,327
General:						
Sales taxes	13,158,495	12,169,046	1,640,874	1,807,262	14,799,369	13,976,308
Property taxes	1,795,170	1,651,909	-	-	1,795,170	1,651,909
Franchise taxes	1,442,634	1,230,435	-	-	1,442,634	1,230,435
Intergovernmental	965,814	1,060,173	-	-	965,814	1,060,173
Investment income	(2,065)	(32,875)	46,156	15,794	44,091	(17,081)
Other	350,309	173,790	-	-	350,309	173,790
Total revenue	22,834,852	20,794,167	7,184,451	7,215,688	30,019,303	28,009,855

CITY OF SULPHUR, LOUISIANA
MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Program expenses:						
General government	4,417,415	3,984,251	-	-	4,417,415	3,984,251
Public safety	11,891,076	12,029,618	-	-	11,891,076	12,029,618
Streets and parks	6,401,644	5,910,705	-	-	6,401,644	5,910,705
Interest on long-term debt	12,385	14,705	-	-	12,385	14,705
Water and sewer	-	-	8,580,576	8,174,598	8,580,576	8,174,598
Total expenses	<u>22,722,520</u>	<u>21,939,279</u>	<u>8,580,576</u>	<u>8,174,598</u>	<u>31,303,096</u>	<u>30,113,877</u>
Increase (decreases) in net assets before transfers	112,332	(1,145,112)	(1,396,125)	(958,910)	(1,283,793)	(2,104,022)
Transfers	-	-	-	-	-	-
Increase in net position	<u>112,332</u>	<u>(1,145,112)</u>	<u>(1,396,125)</u>	<u>(958,910)</u>	<u>(1,283,793)</u>	<u>(2,104,022)</u>
Beginning net position, as restated	38,968,036	40,113,148	49,784,208	50,743,118	88,752,244	90,856,266
Ending net position	<u>\$ 39,080,368</u>	<u>\$ 38,968,036</u>	<u>\$ 48,388,083</u>	<u>\$ 49,784,208</u>	<u>\$ 87,468,451</u>	<u>\$ 88,752,244</u>

GOVERNMENTAL ACTIVITIES. During the current fiscal year, net position for governmental activities increased \$112,323 from the prior year for an ending balance of \$39,080,368.

Revenues increased \$2,040,685 (9.8%) from governmental activities for the current fiscal year. Sales taxes increased by \$989,449 (8.1%) during the current fiscal year. The major sources of revenue for governmental activities are: sales tax 57.6 percent, other taxes such as property taxes and franchise taxes 18.4 percent, program revenues 22.5 percent, and investment earnings and other 1.5 percent.

Expenses from governmental activities increased \$783,241 (3.6%) for the current fiscal year. Public safety comprises 52.3 percent of total governmental activity expenses. Street and parks accounted for 28.2 percent of governmental activity expenditures.

Program revenues covered 22.6 percent of governmental operating expenses in the current fiscal year. Taxes and other general revenues fund remaining 77.4 percent of the governmental activities. The table below presents total cost and net cost of each of the City's programs. The net cost reflects total cost less revenues generated by the activity.

	Total Cost of Services	Net Cost of Services
General government	\$ 4,417,415	\$ 3,442,442
Public safety:	11,891,076	11,321,704
Streets and parks	6,401,644	2,821,494
Interest on long-term debt	12,385	12,385
Total governmental activities	<u>\$ 22,722,520</u>	<u>\$ 17,598,025</u>

BUSINESS-TYPE ACTIVITIES. During the current fiscal year, net position for business-type activities decreased \$1,396,125 from the prior year for an ending balance of \$48,388,083.

Operating revenues for water and sewer services increased \$148,916 (2.8%) over the prior fiscal year. Sales taxes decreased by \$166,388 (9.21%) during the current fiscal year. Operating expenses increased \$545,852 (7.0%). This activity generated an operating loss of \$2,845,401 for the current fiscal year, compared to an operating loss of \$2,448,465 for the prior fiscal year.

**CITY OF SULPHUR, LOUISIANA
MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)**

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City of Sulphur uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. This information is useful in assessing the City's financing requirements. Unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Governmental funds reported combined ending fund balances of \$13,549,905, an increase of \$984,921 in comparison with the fund balance for the prior year. Approximately 59.5 percent of this total amount, \$8,058,654, constitutes unassigned fund balance which is available for spending at the City's discretion. The City has nonspendable fund balances of \$46,046. Restricted fund balances are \$717,873. The City has committed \$848,473, which has been committed by the City Council for capital projects. The City has assigned \$3,878,859, which has been assigned by the City Council for capital projects.

The general fund is the primary operating fund of the City of Sulphur. The fund balance of the City's general fund increased \$299,017 during the current fiscal year. At the end of the current fiscal year, unassigned fund balance of the general fund was \$8,104,700. A comparison of both unassigned fund balance and total fund balance to total fund expenditures can be a useful measure of the general fund's liquidity. Unassigned fund balance represents 43.9 percent of total general fund expenditures.

Revenues on the general fund increased \$1,075,110 (5.9%) over the prior year. Expenditures increased \$344,912 (1.9%) over the prior year.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide statements, but in more detail.

Unrestricted net position of the public utility fund (which accounts for water and sewer services) at the end of the year totaled \$3,085,337. The total decrease in net position for this fund was \$1,396,125.

The internal service fund (which accounts for the City's workers' compensation program) had unrestricted net assets of \$1,222,323 at the end of the current fiscal year. This represents an increase of \$26,451 over the previous fiscal year.

BUDGETARY HIGHLIGHTS

General Fund. During the year there was a need for significant amendments to the original estimated revenues and budgeted appropriations. Budget amendments were approved to increase estimated revenues by \$33,045, budget appropriations by \$154,800, and transfers to other funds by \$425,000.

Actual revenues exceeded budget by \$771,192 (4.0%) and actual expenditures were less than budgeted by \$440,915 (2.4%).

CITY OF SULPHUR, LOUISIANA
MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. The City's investment in capital assets (net of depreciation) for governmental and business-type activities as of June 30, 2014, was \$33,264,745 and \$49,359,573, respectively. The total decrease in the City's investment in capital assets (net of depreciation) for the current fiscal year was \$1,133,435 (1.4%). This investment in capital assets includes land, buildings, machinery and equipment, and infrastructure.

Major capital asset events during the current fiscal year included the following:

- Continuing program of improving, rehabilitating, and expanding the City's infrastructure
- Completed construction on Parish Road

City of Sulphur's Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 3,076,025	\$ 3,076,025	\$ -	\$ -	\$ 3,076,025	\$ 3,076,025
Construction in progress	1,174,129	3,765,396	251,011	141,685	1,425,140	3,907,081
Buildings	5,791,059	5,571,956	48,512,947	50,520,864	54,304,006	56,092,820
Furniture and quipment	1,176,349	1,309,583	299,306	319,672	1,475,655	1,629,255
Transportation equipment	1,776,537	1,811,288	296,309	195,147	2,072,846	2,006,435
Infrastructure	20,270,646	17,046,137	-	-	20,270,646	17,046,137
Total	<u>\$ 33,264,745</u>	<u>\$ 32,580,385</u>	<u>\$ 49,359,573</u>	<u>\$ 51,177,368</u>	<u>\$ 82,624,318</u>	<u>\$ 83,757,753</u>

Additional information on the City's capital assets can be found on pages 36 - 37 of this report. The following table provides a summary of capital asset activity.

Long-term Debt. At the end of the current fiscal year, the City of Sulphur had total long-term liabilities \$17,051,116.

City of Sulphur's Changes in Outstanding Debt

	Beginning of Year	Issued	Retired	End of Year	Amounts Due Within One Year
Governmental activities:					
Special assessments bonds	\$ 333,951	\$ -	\$ 59,161	\$ 274,790	\$ 57,187
Compensated absences	852,206	626,063	600,847	877,422	644,833
Other post-employment benefit	8,533,935	1,843,830	367,643	10,010,123	408,081
	<u>\$ 9,720,092</u>	<u>\$ 2,469,893</u>	<u>\$ 1,027,651</u>	<u>\$ 11,162,335</u>	<u>\$ 1,110,101</u>
Business-type activities:					
Capital leases	\$ 2,532,505	\$ -	\$ 1,140,678	\$ 1,391,827	\$ 986,117
General obligation bonds	3,925,000	-	1,260,000	2,665,000	1,310,000
Compensated absences	204,331	73,561	100,053	177,839	49,085
Other post-employment benefit	1,417,232	295,879	58,995	1,654,115	65,485
	<u>\$ 8,079,068</u>	<u>\$ 369,440</u>	<u>\$ 2,559,726</u>	<u>\$ 5,888,781</u>	<u>\$ 2,410,687</u>

Of this amount, the City's sales tax revenues are dedicated to retire \$4,056,827 and \$274,790 is special

**CITY OF SULPHUR, LOUISIANA
MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)**

assessment debt for which the government is liable in the event of default by the property owners subject to the assessment.

Additional information concerning the City's long-term debt can be found on pages 37 and 39 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The primary revenue stream for the City of Sulphur is sales tax. The City adopted a 2015 sales tax budget of \$15,300,000, an increase of \$900,000 (6.3%) over the final 2014 sales tax budget. The City adopted a 2015 general fund budget with budget deficit of \$622,596.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Sulphur's finances for all those with an interest in such. Questions concerning this report or requests for additional information should be addressed to the Director of Finance, Post Office Box 1309, Sulphur, Louisiana 70664-1309. Information about the component units and their separately issued financial statements can also be obtained from the Director of Finance.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF SULPHUR, LOUISIANA

STATEMENT OF NET POSITION

June 30, 2014

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 6,077,374	\$ 877,977	\$ 6,955,351
Receivables (net of allowance for uncollectibles)	1,954,017	840,382	2,794,399
Intergovernmental	633,537	-	633,537
Inventories	46,046	55,701	101,747
Prepaid expenses	266,489	87,376	353,865
Restricted cash	-	268,279	268,279
Investments	8,264,030	3,501,390	11,765,420
Investment-joint venture	1,917,719	-	1,917,719
Capital assets:			
Land and construction in progress	4,250,154	251,011	4,501,165
Capital assets, net of accumulated depreciation	29,014,591	49,108,562	78,123,153
TOTAL ASSETS	52,423,957	54,990,678	107,414,635
LIABILITIES			
Accounts and other accrued payables	2,176,772	437,229	2,614,001
Liabilities payable from restricted assets	-	268,279	268,279
Interest payable	4,482	8,306	12,788
Noncurrent liabilities:	-		
Due within one year	1,110,101	2,410,687	3,520,788
Due in more than one year	10,052,234	3,478,094	13,530,328
Total Liabilities	13,343,589	6,602,595	19,946,184
NET POSITION			
Net investment in capital assets	34,730,212	45,302,746	80,032,958
Restricted for:			
Debt service reserve	101,314	-	101,314
Law enforcement	616,559	-	616,559
Unrestricted	3,632,283	3,085,337	6,717,620
Total net position	\$ 39,080,368	\$ 48,388,083	\$ 87,468,451

The notes to financial statements are an integral part of this statement.

CITY OF SULPHUR, LOUISIANA

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Governmental activities:						-	
General government:							
General and administrative	\$ 3,495,933	\$ 917,655	\$ -	\$ -	\$ (2,578,278)	\$ -	\$ (2,578,278)
Animal control	363,779	-	-	-	(363,779)	-	(363,779)
Code enforcement	134,536	57,318	-	-	(77,218)	-	(77,218)
Shop	423,167	-	-	-	(423,167)	-	(423,167)
Public safety:							
Police	5,810,633	386,580	57,541	33,046	(5,333,466)	-	(5,333,466)
Fire	5,545,910	-	-	-	(5,545,910)	-	(5,545,910)
Inspection	534,533	92,205	-	-	(442,328)	-	(442,328)
Streets and parks	6,401,644	1,650,373	191,660	1,738,117	(2,821,494)	-	(2,821,494)
Interest on long-term debt	12,385	-	-	-	(12,385)	-	(12,385)
Total governmental activities	22,722,520	3,104,131	249,201	1,771,163	(17,598,025)	-	(17,598,025)
Business-type activities:							
Water and sewer	8,580,576	5,497,421	-	-	-	(3,083,155)	(3,083,155)
Total activities	<u>\$ 31,303,096</u>	<u>\$ 8,601,552</u>	<u>\$ 249,201</u>	<u>\$ 1,771,163</u>	<u>(17,598,025)</u>	<u>(3,083,155)</u>	<u>(20,681,180)</u>
General revenues:							
Sales taxes					13,158,495	1,640,874	14,799,369
Property taxes					1,795,170	-	1,795,170
Franchise taxes					1,442,634	-	1,442,634
Intergovernmental					965,814	-	965,814
Unrestricted investment earnings					49,867	46,156	96,023
Investment earnings - joint venture					(51,932)	-	(51,932)
Other					350,309	-	350,309
Transfers					-	-	-
Total general revenues and transfers					<u>17,710,357</u>	<u>1,687,030</u>	<u>19,397,387</u>
Change in net position					112,332	(1,396,125)	(1,283,793)
Net position-beginning, as restated					38,968,036	49,784,208	88,752,244
Net position-ending					<u>\$ 39,080,368</u>	<u>\$ 48,388,083</u>	<u>\$ 87,468,451</u>

The notes to financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

CITY OF SULPHUR, LOUISIANA

**BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2014**

	General Fund	Public Improvement Capital Project Fund	Street Improvement Capital Project Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 1,584,006	\$ 1,983,882	\$ 1,185,856	\$ 718,051	\$ 5,471,795
Receivables (net of allowance for uncollectibles)	1,615,075	-	93,269	196,853	1,905,197
Intergovernmental receivables	379,865	211,930	41,742	-	633,537
Inventories	46,046	-	-	-	46,046
Investments	5,489,030	-	1,775,000	-	7,264,030
Investment-joint venture	177,462	-	-	-	177,462
Total Assets	\$ 9,291,484	\$ 2,195,812	\$ 3,095,867	\$ 914,904	\$ 15,498,067
LIABILITIES					
Accounts payable	\$ 673,488	\$ 60,907	\$ 503,440	\$ 178	\$ 1,238,013
Accrued liabilities	513,296	-	-	-	513,296
Total liabilities	1,186,784	60,907	503,440	178	1,751,309
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue-special assessments	-	-	-	196,853	196,853
Total deferred inflows of resources	-	-	-	196,853	196,853
FUND BALANCES					
Nonspendable:					
Inventories	46,046	-	-	-	46,046
Restricted:					
Debt service reserves	-	-	-	101,314	101,314
Law enforcement	-	-	-	616,559	616,559
Committed:					
Capital projects	-	-	848,473	-	848,473
Assigned:					
Capital projects	-	2,134,905	1,743,954	-	3,878,859
Unassigned	8,058,654	-	-	-	8,058,654
Total Fund Balances	8,104,700	2,134,905	2,592,427	717,873	13,549,905
Total liabilities, deferred inflows, and fund Balances	\$ 9,291,484	\$ 2,195,812	\$ 3,095,867	\$ 914,904	\$ 15,498,067

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balance - governmental funds	\$ 13,549,905
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	33,264,745
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	2,013,359
Internal service funds are used by management to charge the cost of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.	1,222,323
Long-term liabilities, including bonds payable, special assessment debt, accrued interest payable, and compensated absences payable, are not due and payable in the current period and, therefore, are not reported liabilities in the funds.	(1,156,694)
Other Postemployment Benefits (OPEB) obligations are due and payable in the current period and, therefore, are not reported the funds.	(10,010,123)
Special assessments are not considered available to liquidate liabilities of the current period and are, therefore, deferred in the funds. However, they are properly recognized as revenue in the entity-wide statements as soon as the related improvement has been completed.	196,853
Net position of governmental activities	\$ 39,080,368

The notes to financial statements are an integral part of this statement.

CITY OF SULPHUR, LOUISIANA

**STATEMENT OF REVENUES, EXPEDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2014**

	General Fund	Public Improvement Capital Project Fund	Street Improvement Capital Project Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Sales taxes	\$ 11,689,495	\$ -	\$ 1,469,000	\$ -	\$ 13,158,495
Ad valorem taxes	1,795,170	-	-	-	1,795,170
Franchise taxes	1,439,803	-	-	-	1,439,803
Other taxes	-	-	-	103,553	103,553
Licenses and permits	1,009,860	-	-	-	1,009,860
Intergovernmental	1,056,401	228,534	1,701,243	-	2,986,178
Charges for services	1,650,373	-	-	-	1,650,373
Fines and forfeitures	230,416	-	-	213,482	443,898
Investment earnings	19,961	9,731	9,978	2,769	42,439
Other	320,708	-	8,348	17,332	346,388
Total Revenues	19,212,187	238,265	3,188,569	337,136	22,976,157
EXPENDITURES					
Current:					
General government:					
General and administrative	2,926,356	-	10,272	-	2,936,628
Animal control	284,749	38,299	-	-	323,048
Code enforcement	122,093	-	-	-	122,093
Shop	357,371	-	-	-	357,371
Public safety:					
Police	5,364,606	-	-	59,347	5,423,953
Fire	4,978,311	-	-	-	4,978,311
Inspection	474,829	-	-	-	474,829
Streets and parks	3,937,965	4,963	868,514	-	4,811,442
Debt service:					
Principal retirement	-	-	-	59,161	59,161
Interest and fiscal charges	-	-	-	13,238	13,238
Capital outlay:					
General government	-	-	-	-	-
Streets and parks	-	269,003	2,222,159	-	2,491,162
Total Expenditures	18,446,280	312,265	3,100,945	131,746	21,991,236
Excess (deficiency) of revenues over (under) expenditures	765,907	(74,000)	87,624	205,390	984,921
OTHER FINANCING SOURCES (USES)					
Transfers in (out)	(466,890)	(68,761)	538,761	(3,110)	-
Total other financing sources and (uses)	(466,890)	(68,761)	538,761	(3,110)	-
Net change in fund balances	299,017	(142,761)	626,385	202,280	984,921
Fund balances-beginning, as previously reported	7,805,683	2,277,666	1,966,042	515,593	12,564,984
Fund balances-ending	\$ 8,104,700	\$ 2,134,905	\$ 2,592,427	\$ 717,873	\$ 13,549,905

The notes to financial statements are an integral part of this statement.

CITY OF SULPHUR, LOUISIANA

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2014**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ 984,921
Internal service funds are used by management to charge the cost of insurance to individual funds. The net expenses of the activities of internal service fund is reported within the governmental activities.	26,451
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital assets acquisitions exceed depreciation in the current period.	
Capital asset acquisitions	2,978,622
Depreciation expense	(2,282,047)
Net book value of capital assets retired during year	(12,215)
Governmental funds report bonded debt repayments as expenditures. However, this expenditure does not appear in the Statement of Activities since the payment is applied against the bonds payable on the Statement of Net Position.	59,161
The net effect of various other transactions that increase net position.	(38,088)
Difference between interest on long-term debt on modified accrual basis versus interest on long-term debt on accrual basis.	853
Special assessments are not considered available to liquidate liabilities of the current period, and are therefore deferred in the funds. However, they are properly recognized as revenue in the statement of activities as soon as the related improvement has been completed.	(103,922)
Governmental funds do not report net change in other postemployment benefits (OPEB) obligations. However, this expense does appear in the Statement of Activities since the payable is reported on the Statement of Net Position.	(1,476,188)
Governmental funds do not report the net change in accrued compensated absences as expenditures. However, this expense does appear in the Statement of Activities since the payable is reported on the Statement of Net Position.	(25,216)
Changes in net position of governmental activities	<u><u>\$ 112,332</u></u>

The notes to financial statements are an integral part of this statement.

CITY OF SULPHUR, LOUISIANA

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
As of June 30, 2014**

	Business-Type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	Public Utility	Workers' Compensation
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 877,977	\$ 605,579
Accounts receivable	668,297	-
Interest receivable	2,625	-
Sales tax receivable	169,460	-
Investments	1,500,000	1,000,000
Other	-	-
Restricted cash and cash equivalents	268,279	-
Prepaid expenses	87,376	42,208
Inventories	55,701	-
Total Current Assets	<u>3,629,715</u>	<u>1,647,787</u>
Noncurrent Assets:		
Investments	2,001,390	-
Capital assets:		
Land and construction in progress	251,011	-
Capital assets, net of accumulated depreciation	49,108,562	-
Total Noncurrent Assets	<u>51,360,963</u>	<u>-</u>
Total Assets	<u><u>\$ 54,990,678</u></u>	<u><u>\$ 1,647,787</u></u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 376,825	\$ 8,090
Accrued salaries and benefits	60,404	-
Accrued compensated absences	49,085	-
Interest payable	8,306	-
Claims payable	-	417,374
Customer deposits payable	268,279	-
Bond payable	1,310,000	-
Capital leases	986,117	-
Other post-employment benefits	65,485	-
Total Current Liabilities	<u>3,124,501</u>	<u>425,464</u>
Noncurrent Liabilities:		
Accrued compensated absences, noncurrent	128,754	-
Bonds payable	1,355,000	-
Capital leases payable	405,710	-
Other post-employment benefits, noncurrent	1,588,630	-
Total Noncurrent Liabilities	<u>3,478,094</u>	<u>-</u>
Total Liabilities	<u>6,602,595</u>	<u>425,464</u>
NET POSITION		
Investment in capital assets, net of related debt	45,302,746	-
Unrestricted	3,085,337	1,222,323
Total Net Position	<u><u>\$ 48,388,083</u></u>	<u><u>\$ 1,222,323</u></u>

The notes to financial statements are an integral part of this statement.

CITY OF SULPHUR, LOUISIANA

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For The Year Ended June 30, 2014**

	Business-Type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	Public Utility	Workers' Compensation
OPERATING REVENUES		
Charges for services:		
Water sales	\$ 2,200,319	\$ -
Wastewater fees	3,131,232	-
Water and sewer taps fees	33,590	-
Workers' compensation fees	-	535,249
Miscellaneous	132,280	-
Total operating revenues	5,497,421	535,249
OPERATING EXPENSES		
General and administrative	849,229	71,742
Water expenses	1,609,868	-
Wastewater expenses	3,312,603	-
Depreciation	2,571,122	-
Claims	-	372,615
Insurance	-	71,869
Total Operating Expenses	8,342,822	516,226
Operating income (loss)	(2,845,401)	19,023
NON-OPERATING REVENUES (EXPENSES)		
Sales taxes	1,640,874	-
Investment earnings	46,156	7,428
Interest expense	(228,018)	-
Grants	-	-
Other	(9,736)	-
Total Non-Operating Revenues (Expenses)	1,449,276	7,428
Income (loss) before capital contributions and transfers	(1,396,125)	26,451
TRANSFERS IN (OUT)	-	-
Change in net position	(1,396,125)	26,451
Net position-beginning	49,784,208	1,195,872
Net position-ending	\$ 48,388,083	\$ 1,222,323

The notes to financial statements are an integral part of this statement.

CITY OF SULPHUR, LOUISIANA

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For The Year Ended June 30, 2014**

	Business-Type Activities - Enterprise Fund Water and Wastewater	Governmental Activities - Internal Service Fund Workers' Compensation
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 5,396,314	\$ -
Receipts from interfund charges for risk management services	-	535,249
Payments to suppliers and service providers	(4,562,758)	(147,030)
Payment to employees for salaries and benefits	(1,130,637)	-
Payments made for claims	-	(282,077)
Net cash provided by (used for) operating activities	(297,081)	106,142
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from sales taxes	1,670,389	-
Net cash (used for) noncapital and related financing activities	1,670,389	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisitions and construction of capital assets	(711,386)	-
Principal paid on capital debt	(2,400,678)	-
Interest paid on capital debt	(231,945)	-
Proceeds from the sale of assets	2,340	-
Net cash provided by (used for) capital and related financing activities	(3,341,669)	-
CASH FLOWS FORM INVESTING ACTIVITIES		
Purchase of investments	(1,500,000)	(1,000,000)
Proceeds from sales and maturity of investments	2,000,000	1,000,000
Interest on investments	30,066	5,816
Net cash provided by investing activities	530,066	5,816
Net increase (decrease) in cash and cash equivalents	(1,438,295)	111,958
Cash and cash equivalents, beginning of the year	2,584,551	469,090
Cash and cash equivalents, end of the year	1,146,256	581,048
Cash and cash equivalents at the end of the year consisted of:		
Unrestricted cash	877,977	\$ 492,009
Restricted cash	268,279	-
	\$ 1,146,256	\$ 492,009

The notes to the financial statements are an integral part of this statement.

CITY OF SULPHUR, LOUISIANA

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For The Year Ended June 30, 2014
(Continued)**

	Business-Type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	Water and Wastewater	Workers' Compensation
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating loss	\$ (2,845,401)	\$ 19,023
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	2,571,122	-
(Increase) decrease in receivables	(101,107)	-
(Increase) decrease in inventory	23,077	-
(Increase) decrease in prepaid items	(21,522)	(3,419)
Increase (decrease) in customer deposits	18,021	-
Increase (decrease) in accounts payable	(155,123)	90,538
Increase (decrease) in accrued liabilities	3,461	-
Increase (decrease) in compensated absences payable	(26,492)	-
Increase in other post-employment benefits	236,883	-
Total Adjustments	2,548,320	87,119
Net Cash Provided by (Used for) Operating Activities	\$ (297,081)	\$ 106,142

The notes to the financial statements are an integral part of this statement.

CITY OF SULPHUR, LOUISIANA
NOTES TO FINANCIAL STATEMENT
June 30, 2014

1) **Summary of Significant Accounting Policies**

A. Description of government-wide financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on of the primary government and its component units. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally *separate component* units for which the primary government is financially accountable.

B. Reporting entity

The City of Sulphur (City) was incorporated under the provisions of the State of Louisiana LA R.S. 33:321-481. The City operates under a home rule charter, which is governed by an elected mayor and five-member governing council.

The accounting and financial reporting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governments. Such accounting and reporting procedures also conform to the requirements of Louisiana Revised Statutes 24:517 and to the guidance set forth in the *Louisiana Municipal Audit and Accounting Guide*, and to the industry audit guide, *Audits of State and Local Governmental Units*. Following is a summary of certain more significant accounting policies.

The accompanying financial statements include all funds, which are directly controlled by the City, and which constitute the primary government as defined for financial statement purposes. In accordance with generally accepted accounting principles, this report should also include component units, which are legally separate from the City but considered to be fiscally dependent on the primary government.

Component units. Component units are not discretely presented in this report. Further disclosures concerning such units are provided below.

The City Court of Sulphur and for Ward Four (Court) is dependent on the City for office space, court rooms and partially funding the Court Judge's salary. Additionally, the City's provides partial funding for court employees and other operating expenses. The Court was determined to be a component unit of the City, the primary reporting entity.

The Ward Four Marshal is dependent on the City for office space and partially funding the Marshal's salary. Additionally, the City's provides partial funding for the salary expenses and other operating expenses. The Ward Four Marshal was determined to be a component unit of the City, the primary reporting entity.

Only the primary government's financial information is included in these financial statements. Information on how to obtain component unit financial statements can be obtained by contacting the Director of Finance for the City of Sulphur, Louisiana.

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2014

(Continued)

C. Basis of presentation - government-wide financial statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

D. Basis of presentation - fund financial statements

The fund financial statements provide information about the government's funds. Separate statements for each fund category, governmental and proprietary, are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in other funds.

The *public improvement capital project fund* accounts for the acquisition, construction, and improvements of major capital facilities.

The *street improvement capital project fund* accounts for capital improvements related to the opening, construction, paving, and improving of streets.

The City reports the following major enterprise fund:

The *public utility fund* accounts for activities of the water distribution system and wastewater collection and treatment.

Additionally, the City also reports the following fund types:

Internal service fund is used to account for the workers' compensation program provided to other departments of the City.

Debt service fund is used to account for the accumulation of resources and the payments made for principal, interest, and related cost on long-term debt obligations of governmental funds.

Drug seizure funds are special revenue funds, which account for the receipt and use of the proceeds. The City maintains a separate fund for each Federal and State program. The funds have been consolidated because they are similar in nature.

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2014

(Continued)

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

E. Measurement focus and basis of accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2014

(Continued)

the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is available. All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary fund is reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

F. Budgetary information

Adoption Process

The City annually adopts and implements an operating and capital budget in accordance with requirements of state law for the General Fund and all Special Revenue Funds. The budget is prepared by fund, function, and activity and includes information on the past year, current year estimates, and requested appropriations for the next fiscal year. The Capital Projects Fund's budget is a project-based capital budget. Policies and procedures with respect to budgetary control are as follows.

No later than sixty days prior to the beginning of each fiscal year, the Mayor submits a budget to the City Council. The Council holds public hearings and may add to, subtract from or change appropriations, but may not change the form of the budget. Any changes in the budget must be within the revenues and reserves estimated or the revenue estimates must be changed by an affirmative vote of a majority of the City Council. The budget presented is as amended by the City Council.

Basis of accounting

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund, Special Revenue Funds and Capital Projects Funds. In accordance with accounting principles generally accepted in the United States of America, outstanding encumbrances at year end for which goods or services are received are reclassified to expenditures and accounts payable. All other encumbrances in the annual budgeted funds are reversed at year end and are either canceled or are included as reappropriations of fund balance for the subsequent year. Encumbrances at year end in funds that are budgeted on a project basis, including Enterprise Fund construction projects, are carried forward along with their related appropriations and are not subject to annual cancellation and re-appropriation.

Excess of Expenditures over Appropriations

The legal level of budgetary control for the General Fund is at the department level. Expenditures of various departments did exceed appropriated amounts. However, the expenditures of General Fund did not exceed the appropriated amount. A formal budget amendment is not required according to state law since the General Fund's total expenditures did not exceed appropriated expenditures by more than five percent.

CITY OF SULPHUR, LOUISIANA
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

G. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance

1. *Cash and cash equivalents*

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2. *Investments*

The City investments are limited to U.S. Treasury and government agency obligations as well as investments in the Louisiana Asset Management Pool, Inc. (LAMP) and the Certificate of Deposit Account Registry Service (CDARS). LAMP is a nonprofit corporation organized under the laws of the State of Louisiana which operates a local government investment pool. CDARS is an investment vehicle providing full FDIC insurance for the purchase of certificates of deposit.

Investments are reported at fair value except for LAMP investments which are stated at cost, which approximates market and is equal to the value of the pool shares. Fair value was determined by obtaining "quoted" year-end market prices.

3. *Inventory and prepaid items*

Inventory is valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund type inventories are recorded as expenditures when consumed rather than when purchased.

Certain contracts and insurance payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide and the proprietary funds financial statements. The cost of prepaid items is recorded as expenditures/expenses when purchased in the governmental funds.

4. *Capital Assets*

Capital assets, which include property, plant and equipment and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Capital assets are capitalized at historical cost or estimated cost if historical is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of assets are not capitalized.

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2014

(Continued)

Depreciation is provided over the estimated useful lives of assets using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Property and plant	15-50 years
Equipment	5-15 years
Transportation equipment	5 years

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

5. *Accounts Receivable*

Uncollectible amounts due for ad valorem taxes and other receivables of governmental funds are recognized as bad debts at the time information becomes available which would indicate that the particular receivable is not collectible.

The City utilizes the allowance method for proprietary funds to recognize doubtful accounts. Accounts receivable are stated at cost less an allowance for doubtful accounts. Accounts are considered delinquent when 30 days past due. The allowance account consists of an estimate of uncollectible specifically identified accounts and a general reserve. Management's evaluation of the adequacy of the allowance is based on a continuing review of all accounts and includes a consideration of past user history, any adverse situations that might affect the user's ability to repay, and current economic conditions. The need for an adjustment to the allowance is considered at year end. Amounts charged-off that are subsequently recovered are recorded as income.

There appears to be concentration of credit risk with regard to general accounts receivable and more specifically accounts receivable for water and sewer user fees in the enterprise fund. The City's ability to collect the amounts due from the users of the City water and sewer system and others (as reflected on the financial statements) may be affected by significant economic fluctuations, natural disaster or other calamity in this one concentrated geographic location.

6. *Long-Term Debt*

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds and special assessment payables.

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2014

(Continued)

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary fund long-term debt is the same in the fund statements as it is in the government-wide statements.

7. *Deferred outflows/inflows of resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The government has no items which qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

8. *Net position flow assumption*

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

9. *Fund balance flow assumptions*

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2014

(Continued)

10. Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes the City classifies governmental fund balances as follows:

- Non-spendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or grantors, or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - includes fund balance amounts that are constrained for specific purposes that are internal imposed by the City through formal action of the City and does not lapse at year-end.
- Assigned - Includes fund balance amounts that are intended to be used for a specific purpose that are considered to be neither restricted nor committed. Fund balance can be assigned by the City Council.
- Unassigned - includes fund balance amounts within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

H. Revenues and expenditures/expenses

1. Program revenues

Amounts reported as program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and, (2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property taxes

Property taxes and the related state revenue sharing are recorded in the year taxes are due and payable. Property taxes are assessed on a calendar year basis, become due on November 15 of each year, and become delinquent on December 31. The taxes are generally collected in December, January and February of the fiscal year.

3. Compensated Absences

It is the City's policy to permit regular full-time and part-time employees to accumulate earned but unused vacation and sick leave benefits.

All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as result of an employee resignations and retirements.

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2014

(Continued)

Unused sick leave may be accumulated from year to year. However, unused sick leave is paid up to a maximum of 65 days upon retirement. Sick leave liability is reported at the estimated value in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured.

4. *Proprietary funds operating and nonoperating revenues and expenses*

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. Principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for Enterprise and Internal Service Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these criteria are reported as non-operating revenues and expenses.

I. Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect: (1) the reported amount of assets and liabilities, (2) disclosures such as contingencies, and (3) the reported amounts of revenues and expenditures or expenses included on the financial statements. Actual results could differ from those estimates.

2) Restricted Assets

Customer deposits of the public utility fund are legally restricted as to purpose. These assets have been classified as restricted assets on the Statement of Net Position since the use of these funds are limited. Restricted assets as of June 30, 2014, were \$268,279.

3) Cash and Investments

As of June 30, 2014, the City had cash and cash equivalents (book balances) totaling \$7,223,630 (net of outstanding checks and deposit in transit) of which \$3,975,669 is in interest-bearing demand deposits, \$3,211,543 is in noninterest-bearing demand deposits, \$34,878 is deposited in LAMP, and cash on hand of \$1,540.

As of June 30, 2014, the City had investments totaling \$11,765,420 of which \$7,275,000 is in certificates of deposit with maturities not exceeding two years and \$4,490,420 consisting of callable investments of United States Treasury obligations, obligations issued or guaranteed by the United States government or federal agencies. As of June 30, 2014, the weighted average maturity of the City's callable investment portfolio was 4.2112 years.

Credit risk. Louisiana statutes allow the City to invest in United States Treasury obligations, obligations issued or guaranteed by the United States government or federal agencies, and mutual or trust funds registered with the Securities and Exchange Commission which have underlying investments consisting solely of and limited to the United States government or its agencies. The City does not have a deposit policy for custodial credit risk.

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2014

(Continued)

In addition, local governments in Louisiana are authorized to invest in the Louisiana Asset Management Pool, Inc. (LAMP), a nonprofit corporation formed by an initiative of the State Treasurer and organized under the laws of the State of Louisiana, which operates a local government investment pool.

Interest Rate Risk. Interest rate risk is the risk that changes in the interest rate will adversely affect the fair value of the investment. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that, in the event of bank failure, the City's deposits may not be returned. The City does not have a deposit policy for custodial credit risk. As of June 30, 2014, the City had \$7,731,211 in demand deposits (bank balances before outstanding checks or deposits in transit) and \$7,275,000 in certificates of deposit. These deposits are secured from risk by \$8,488,340 of federal deposit insurance and \$6,517,871 collateralized with securities held by the pledging financial institution's trust department or agent, in the City's name.

Under Louisiana Revised Statutes 39:2955, the City may deposit funds in demand deposit accounts, interest bearing demand deposit accounts, money market accounts, and time certificates of deposit with state banks organized under Louisiana Law and National Banks having a principal offices in Louisiana. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties.

4) Property Taxes

For the year ended June 30, 2014, taxes of 14.07 mills were levied on property with net assessed valuations totaling \$121,332,390 and were dedicated as follows:

General purposes	5.01 mills
Streets - maintenance	4.53 mills
Fire - maintenance	4.53 mills
Total taxes levied	\$ 1,707,147

The City is permitted by ordinance to levy taxes up to 14.21 mills of assessed valuation for general governmental services. The general-purpose millage is perpetual, while the streets and fire maintenance mileages are for ten-year durations and expire December 31, 2024. Property tax millage rates are adopted in July for the calendar year in which the taxes are levied and recorded. All taxes are due and collectible when the assessment rolls are filed on or before November 15th of the current year and become delinquent after December 31st. Property taxes not paid by the end of February are subject to lien.

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2014

(Continued)

5) Receivables

Amounts are aggregated into a single accounts receivable (net of allowance for uncollectibles) line for certain funds and aggregated columns. Below is the detail of receivables as of June 30, 2014, for major governmental funds and the nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts:

Receivables	General	Public Improvement Capital Project	Street Improvement Capital Project	Nonmajor Governmental	Total
Sales taxes	\$ 1,050,918	\$ -	\$ 93,269	\$ -	\$ 1,144,187
Charges for services	127,900	-	-	-	127,900
Franchise taxes	327,003	-	-	-	327,003
Special assessments	-	-	-	196,853	196,853
Interest	2,499	-	-	-	2,499
Other	110,894	-	-	-	110,894
Gross receivables	\$ 1,619,214	\$ -	\$ 93,269	\$ 196,853	\$ 1,909,336
Less: Allowance for uncollectables	(4,139)	-	-	-	(4,139)
Net receivable	<u>\$ 1,615,075</u>	<u>\$ -</u>	<u>\$ 93,269</u>	<u>\$ 196,853</u>	<u>\$ 1,905,197</u>

Revenues of the Public Utility, an enterprise fund, are reported net of uncollectible amounts. As of June 30, 2014, the total uncollectible amounts related to water sales and wastewater services amounted to \$11,075.

6) Council Members Compensation

Each council member receives monthly compensation. The following is a list of council members and their compensation for the fiscal year ended June 30, 2014:

Mike Koonce	\$ 3,715
Dru Ellender	\$ 4,200
Stuart Moss	\$ 4,200
Randy Favre	\$ 4,200
Veronica Allison	\$ 4,200
Dennis Bergeron	\$ 485

The compensation paid to the Mayor for the year end June 30, 2014, is as follows:

Chris Duncan \$ 80,000

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2014

(Continued)

7) Capital Assets

	Beginning of Year	Additions	Deletions	End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 3,076,025	\$ -	\$ -	\$ 3,076,025
Construction in progress	3,765,396	2,491,162	5,082,429	1,174,129
Total capital assets not being depreciated	6,841,421	2,491,162	5,082,429	4,250,154
Capital assets being depreciated:				
Buildings	7,829,559	410,570	-	8,240,129
Furniture and equipment	7,453,059	233,792	-	7,686,851
Transportation equipment	5,007,327	282,412	115,148	5,174,591
Infrastructure	54,069,576	4,643,115	-	58,712,691
Total capital assets being depreciated	74,359,521	5,569,889	115,148	79,814,262
Less accumulated depreciation for:				
Buildings	2,257,603	191,467	-	2,449,070
Furniture and equipment	6,143,476	367,026	-	6,510,502
Transportation equipment	3,196,039	304,947	102,932	3,398,054
Infrastructure	37,023,439	1,418,606	-	38,442,045
Total accumulated depreciated	48,620,557	2,282,046	102,932	50,799,671
Governmental activities capital assets, net:	<u>\$ 32,580,385</u>	<u>\$ 5,779,005</u>	<u>\$ 5,094,645</u>	<u>\$ 33,264,745</u>
Business type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 141,685	\$ 580,654	\$ 471,328	\$ 251,011
Capital assets being depreciated:				
Buildings and plant	74,373,268	471,328	-	74,844,596
Furniture and equipment	1,322,322	31,265	-	1,353,587
Transportation equipment	434,674	142,010	31,886	544,798
Total capital assets being depreciated	76,130,264	644,603	31,886	76,742,981
Less accumulated depreciation for:				
Buildings and plant	23,852,404	2,479,245	-	26,331,649
Furniture and equipment	1,002,650	51,631	-	1,054,281
Transportation equipment	239,527	40,246	31,284	248,489
Total accumulated depreciated	25,094,581	2,571,122	31,284	27,634,419
Business type activities capital assets, net:	<u>\$ 51,177,368</u>	<u>\$ (1,345,865)</u>	<u>\$ 471,930</u>	<u>\$ 49,359,573</u>

CITY OF SULPHUR, LOUISIANA
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Depreciation expense was charged to governmental activities as follows:

General and administrative	\$ 385,252
Fire	140,250
Police	158,033
Streets and park	1,546,031
Inspection	11,074
Animal control	11,214
Code enforcement	3,514
Shop	26,678
	<hr/>
Total	<u>\$ 2,282,046</u>

The city had total commitments for the following projects for the year ended June 30, 2014:

Project type:	Remaining Commitment
Streets, bridges and storm drainage	<u>\$ 848,473</u>
Water and Wastewater projects	875,650
Total	<u><u>\$ 1,724,123</u></u>

8) Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2014:

	Beginning of Year	Issued	Retired	End of Year	Amounts Due Within One Year
Governmental activities:					
Special assessments bonds	\$ 333,951	\$ -	\$ 59,161	\$ 274,790	\$ 57,187
Compensated absences	852,206	626,063	600,847	877,422	644,833
Other post-employment benefit	8,533,935	1,843,830	367,643	10,010,123	408,081
	<u>\$ 9,720,092</u>	<u>\$ 2,469,893</u>	<u>\$ 1,027,651</u>	<u>\$11,162,335</u>	<u>\$ 1,110,101</u>
Business-type activities:					
Capital leases	\$ 2,532,505	\$ -	\$ 1,140,678	\$ 1,391,827	\$ 986,117
General obligation bonds	3,925,000	-	1,260,000	2,665,000	1,310,000
Compensated absences	204,331	73,561	100,053	177,839	49,085
Other post-employment benefit	1,417,232	295,879	58,995	1,654,115	65,485
	<u>\$ 8,079,068</u>	<u>\$ 369,440</u>	<u>\$ 2,559,726</u>	<u>\$ 5,888,781</u>	<u>\$ 2,410,687</u>

The payments on the special assessment paving certificates are made by the debt service funds.

CITY OF SULPHUR, LOUISIANA
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Bonds payable at June 30, 2014 are comprised of the following individual issues:

Governmental Activities:

Special assessment bonds:

\$54,693 paving project 2007 dated April 1, 2007, due in annual principal installments of \$5,471 , plus interest, through April 1, 2017, interest at 5.75%	16,407
\$259,683 paving project 2008 dated June 1, 2008, due in annual principal installments of \$25,968, plus interest, through June 1, 2018, interest at 3.84%	103,872
\$257,511 paving project 2009 dated November 1, 2009, due in annual principal installments of \$25,750, plus interest, through November 1, 2019, interest at 3.80%	<u>154,511</u>
Total special assessment bonds	<u><u>\$ 274,790</u></u>

Business-type Activities:

General obligation bonds:

\$8,530,000 Excess Revenue Refunding Certificate of Indebtedness dated June 26, 2009, due in semi-annual installments through June 1, 2016, interest at 3.74%	<u>2,665,000</u>
Total bonds payable	<u><u>\$ 2,939,790</u></u>

The annual requirements to amortize all bonds are as follows:

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2015	\$ 57,187	\$ 10,804	\$ 1,310,000	\$ 99,671
2016	57,187	8,514	1,355,000	50,677
2017	57,187	6,223	-	-
2018	51,718	3,933	-	-
2019	25,750	1,958	-	-
2020-2024	<u>25,761</u>	<u>979</u>	<u>-</u>	<u>-</u>
	<u><u>\$ 274,790</u></u>	<u><u>\$ 32,411</u></u>	<u><u>\$ 2,665,000</u></u>	<u><u>\$ 150,348</u></u>

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2014

(Continued)

The City has entered into two lease agreements as lessee for financing of equipment that is a component of the wastewater plant expansion. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	<u>Utility Fund</u>
Assets:	
Wastewater treatment facility equipment	\$ 10,000,000

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2014, were as follows:

<u>Year Ending June 30</u>	<u>Government Activities</u>
2015	1,022,288
2016	411,667
2017	-
2018	-
2019	-
2019 - 2023	-
Total minimum lease payments	<u>1,433,955</u>
Less: amount representing interest	42,128
Present value of minimum lease payments	<u><u>\$ 1,391,827</u></u>

9) Dedication of Sales Tax Proceeds

One Percent Sales and Use Tax – Proceeds of the one percent (1%) sales and use tax levied and collected by the City. This tax was authorized in 1966 for a perpetual duration. The proceeds are dedicated to the following purposes:

Fifty Percent (50%), but not to exceed the total annual debt service on any and all bonds secured by pledge of Proceeds of this fund to the City, which proceeds shall be dedicated and used for any of the following capital improvements: opening, construction, paving and improving streets, sidewalks, roads and alleys, constructing bridges, purchasing or constructing water works, sewerage and sewerage disposal works, drains, drainage canals, pumping plants and waste disposal facilities, facilities for pollution control and abatement, water and waste water systems, halls, courthouses, auditoriums, jails, public parks and recreation facilities. Other public works and/or buildings, title to which said works, buildings and improvements shall be in the Public.

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2014

(Continued)

After payment of above costs:

- 1) Ten percent (10%), but not to exceed \$150,000 annually, without subsequent approval of the Council of the City of Sulphur, Louisiana, to the Streets and Parks Department for any lawful purpose.
- 2) Ten percent (10%), but not to exceed \$150,000 annually, without subsequent approval- of the Council of the City of Sulphur, Louisiana, to the Public Utilities Department for any lawful purpose.
- 3) Seven percent (7%), to the General Fund of the City of Sulphur, Louisiana for operating expenses of the City and for any other lawful purpose.
- 4) Ten percent (10%), but not to exceed \$150,000 annually, without subsequent approval of the Council of the City of Sulphur, Louisiana to the general fund of the City of Sulphur, Louisiana, for salaries and salary increases to employees of the City of Sulphur, Louisiana, based on a merit and cost-of-living evaluation system.
- 5) Three percent (3%), but not to exceed \$45,000 annually, without subsequent approval of the Council of the City of Sulphur, Louisiana, to the Fire Department for any lawful purpose.
- 6) Ten percent (10%), together with any excess portion of any of the foregoing allocations, to a reserve and match money fund, which fund shall be used first to satisfy any bond issue or bond indenture requirements, and after said bond indenture requirements have been satisfied, any excess funds to be used as matching money for any state and federal grant program or for any lawful corporate purpose at the discretion of the City of Sulphur, Louisiana.

Additional One Percent Sales and Use Tax - Proceeds of the one percent (1%) sales and use tax levied and collected by the City. This tax was original authorized in 1980, and has re-authorized for an additional 25 years from January 1, 2005. The proceeds may be used for virtually any capital or operating needs of the City.

Additional One-Half Percent Sales and Use Tax - Proceeds of the one-half of one percent (½%) sales and use tax levied and collected by the City. This tax was original authorized in 1991, and has re-authorized for an additional 10 years from April 1, 2011. The proceeds are dedicated for improving streets, sewerage disposal, water systems, and waste water systems.

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2014

(Continued)

10) Retirement Commitments

The City participates in three state-administered cost-sharing multiple-employer retirement systems, which together cover substantially all of the City's full-time employees: Municipal Employees Retirement System, Municipal Police Employees' Retirement System and Firefighters' Retirement System of the State of Louisiana. Although separately administered by their respective boards of trustees, these systems are established and regulated by acts of the Louisiana Legislature with respect to membership and contribution requirements, plan benefits, and actuarial determination of funding requirements as provided by the state constitution. Additional disclosures with respect to the City's participation in these systems are provided below.

Municipal Employees' Retirement System

The System is composed of two distinct plans, Plan A and Plan B, with separate assets and benefit provisions. Employees of the City are members of Plan A. The system covers full-time employees who are not eligible to participate in other state administered define benefit plans. Membership is generally mandatory for as a condition of employment beginning on the date employed if the employee is on a permanent basis working at least thirty-five hours per week.

Under Plan A, employees hired on or after January 1, 2013, who retire at or after age 67 with at least 7 years of credited service, at or after age 62 with 10 years of credited service, or at or after age 55 with 30 years of credited service are entitled to a retirement benefit, payable monthly for life equal to 3 percent of their final compensation multiplied by the employee's years of credited service. Final compensation is the employee's monthly earnings during the 60 consecutive or jointed months that produce the highest average.

Under Plan A, employees hired before January 1, 2013, who retire at or after age 60 with at least 10 years of credited service, at or after age 55 with 25 years of credited service, or at any age with 30 or more years of credited service are entitled to a retirement benefit, payable monthly for life equal to 3 percent of their final compensation multiplied by the employee's years of credited service. Final compensation is the employee's monthly earnings during the 36 consecutive or jointed months that produce the highest average.

The System also provides death, disability and early retirement benefits. Benefits are established by state statute.

Plan members were required to contribute 9.50% of their annual covered salary for the fiscal year ended June 30, 2014, and 9.25% for the fiscal years ended June 30, 2013, and 2012. The City is required to contribute at an actuarially determined rate, which was 18.75% of covered payroll for the fiscal year ended June 30, 2014, 17.00% for the fiscal year ended June 30, 2013, and 16.75% for the fiscal year ended June 30, 2012. The contribution requirements of plan members and the City are established and may be amended by the System's Board of Trustees. The City's contributions to the System for the year ended June 30, 2014, 2013, and 2012 totaled \$706,472, \$625,350 and \$624,318, respectively.

The Municipal Employees' Retirement System of Louisiana issues a publicly-available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to Municipal Employees' Retirement System of Louisiana, 9737 Office Park Boulevard, Baton Rouge, LA 70809.

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2014

(Continued)

Municipal Police Employees' Retirement System

Membership is generally mandatory for police personnel who are under the direction of the chief of police, and who is paid from the budget of the police department. Employees who retire at or after age 50 with at least 20 years of credited service, or at or after age 55 with at least 12 years of credited service are entitled to a retirement benefit payable monthly for life, equal to 3 1/3 percent of their average final compensation multiplied by the employee's years of credited service. Final compensation is the employee's monthly earnings during the 36 consecutive or joined months that produce the highest average. The System also provides death, disability and early retirement benefits. Benefits are established by state statute.

Plan members were required to contribute 10.0% of their annual covered salary for the fiscal years ended June 30, 2014, 2013, and 2012. The City is required to contribute as established by the state statute an actuarially determined rate, which was 31.0% of covered payroll for the fiscal year ended June 30, 2014, 31.0% for the fiscal year ended June 30, 2013, and 29.0% for the fiscal year ended June 30, 2012. The City's contributions to the system for the year ended June 30, 2014, 2013, and 2012 totaled \$766,630, \$777,444 and \$678,285, respectively.

The Municipal Police Employee's Retirement System issues a publicly-available report that includes financial statements and required supplemental information. That report may be obtained by writing to Municipal Police Employee's Retirement System, 8401 United Plaza Blvd., Suite 270, Eaton Rouge, LA 70809-7017.

Firefighters' Retirement System

Membership is generally mandatory as a condition of employment beginning on date employed if the employee is on a permanent basis as a firefighter, not participating in another publicly-funded retirement system and under age fifty (50) at date of employment. Employees who retire at or after age 50 with at least 20 years of credited service, or at or after age 55 with at least 12 years of credited service are entitled to a retirement benefit payable monthly for life, equal to 3 1/3 percent of their average final compensation multiplied by the employee's years of credited service. Final compensation is the employee's monthly earnings during the 36 consecutive or joined months that produce the highest average. The System also provides death and disability benefits. Benefits are established by state statute.

The Firefighter's Retirement System issues a publicly-available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to Firefighter's Retirement System, P0 Box 94095 Capitol Station, Baton Rouge, LA 70804-9095.

Plan members were required to contribute 10.0% of their annual covered salary for the fiscal years ended June 30, 2014, 2013 and 2012. The City is required to contribute at an actuarially determined rate, which was 28.25% of covered payroll for the fiscal year ended June 30, 2014, 24% for the fiscal year ended June 30, 2013, and 23.25% for the fiscal year ended June 30, 2012. The contribution requirements of Plan members are established and may be amended by the System's Board of Trustees. The City's contributions to the System for the year ended June 30, 2014, 2013, and 2012 totaled \$734,277, \$635,207 and \$618,581, respectively.

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2014

(Continued)

11) Contingencies and Commitments

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's legal counsel that the resolution of these matters will not have a material adverse effect on the financial condition of the City.

12) Interfund transfers

The composition of interfund transfers for the year ended June 30, 2014 is as follows:

	Transfers In	Transfers Out
General		
Public Improvement	\$ -	\$ 45,000
Street Improvements	-	425,000
Paving Projects Debt Service	3,586	476
Total General	<u>3,586</u>	<u>470,476</u>
Street Improvement Capital Project		
General	425,000	-
Public Improvement	113,761	-
Total Street Improvement Capital Project	<u>538,761</u>	<u>-</u>
Public Improvements Capital Project		
General	45,000	-
Street Improvements	-	113,761
Total Public Improvements Capital Project	<u>45,000</u>	<u>113,761</u>
Paving Projects Debt Service		
General	476	3,586
Total Paving Projects Debt Service	<u>476</u>	<u>3,586</u>
Grand totals	<u>\$ 587,823</u>	<u>\$ 587,823</u>

During the year, the City transferred funds from the general fund to the capital project funds for improving, rehabilitating, and expanding the City's infrastructure.

13) Risk Management Obligations

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. The City established a limited risk management program for workers' compensation in fiscal year 1996. Premiums are paid into the internal service fund by the general and public utility funds and are available to pay claims, claim reserves, reinsurance premiums and administrative costs of the program. The surplus retained earnings resulting from charges for anticipated future catastrophic losses have been designated.

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2014

(Continued)

Liabilities related to workers' compensation claims are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. An excess coverage insurance policy covers individual claims in excess of \$500,000 for police officers and firefighters, and \$400,000 for all other City employees. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering recent claims settlement trends including frequency and amount of pay-outs and other economic and social factors.

The liability (current) for claims and judgments is reported in the internal service fund because it is expected to be liquidated with expendable available financial resources. Changes in the balances of claims liabilities during the past year are as follows:

Unpaid claims, beginning of fiscal year	\$ 324,946
Incurred claims (including IBNRs)	372,080
Claim payments	(279,652)
Unpaid claims, end of fiscal year	<u>\$ 417,374</u>

14) Postemployment Health Care and Life Insurance Benefits

Plan Description - The City administers a single-employer defined benefit postemployment health care plan ("the Retiree Health Plan"). The plan provides medical and life insurance benefits to eligible retired employees and their beneficiaries through the City's group health insurance plan, which covers both active and retired members. Benefits are provided through Blue Cross/Blue Shield whose monthly premiums are paid by the City. The Retiree Health Plan does not issue a publicly available financial report.

Funding Policy - The contribution requirements of plan members and the City are established and may be amended by the City. The City pays the full cost of the benefits for retired plan members and a portion of the cost of the retirees' spouses and dependent children. For fiscal year 2014, the City contributed \$426,638 to the plan.

Annual OPEB Cost and Net OPEB Obligation - For 2014, the City's annual other postemployment benefit ("OPEB") cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation to the Retiree Health Plan:

Annual Required Contribution	\$ 2,314,179
Interest on Net OPEB Obligation	348,292
Adjustment to Annual Required Contribution	(522,762)
Annual OPEB Cost (Expense)	<u>2,139,709</u>
Contributions Made	(426,638)
Increase in Net OPEB Obligation	<u>1,713,071</u>
Net OPEB Obligation – beginning of year	9,951,167
Net OPEB Obligation – end of year	<u>\$ 11,664,238</u>

CITY OF SULPHUR, LOUISIANA
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2014 and the three preceding fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2011	2,857,433	13.9%	5,796,937
6/30/2012	2,819,023	14.6%	8,205,443
6/30/2013	2,170,316	19.6%	9,951,167
6/30/2014	2,139,709	19.9%	11,664,238

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$22,993,288, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$9,026,000, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 254.7%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funding status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

Methods and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2012, actuarial valuation, the unit credit actuarial cost method was used. Based on the City's short-term investment portfolio, a discount rate of 3.5% was used, which was decreased from 4.0% in the prior valuation. In addition, the actuarial assumptions included an annual medical healthcare cost trend rate of 9% initially, reduced by decrements to an ultimate rate of 5.0% after 9 years. The City's unfunded actuarial liability is being amortized as a level dollar on an open basis over 30 years.

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2014

(Continued)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial valuation of assets	Actuarial Accrued Liability Unit Credit	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2008	-	\$ 16,679,604	\$ 16,679,604	0.0%	\$ 9,671,106	172.5%
7/1/2010	-	\$ 25,903,348	\$ 25,903,348	0.0%	\$ 9,379,696	276.2%
7/1/2012	-	\$ 22,993,288	\$ 22,993,288	0.0%	\$ 9,026,000	254.7%

15) Joint Venture

On February 1, 2000, the Calcasieu Parish Police Jury, the West Calcasieu Port, Harbor, and Terminal District and the Industrial Development Board of the City of Sulphur entered into an amended joint service agreement with the West Calcasieu Airport Managing Board as to the development and operations of the West Calcasieu Airport Managing Board (Airport). The City owns 49.16%% of the Airport. Total assets of the Airport were \$4,100,233 and \$4,240,573, and total liabilities were \$199,145 and \$233,842 as of June 30, 2014 and 2013, respectively. The Net Position of the Board decreased \$104,498 and \$119,455 for the years ending June 30, 2014 and 2013, respectively. The investment is accounted for using the equity method. Financial statements can be obtained by contacting the Director of Finance for the City of Sulphur, Louisiana.

16) Subsequent Events

The City evaluated its June 30, 2014 financial statements for subsequent events through December 30, 2014, the date of the financial were available to be issued. The City is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF SULPHUR, LOUISIANA

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For The Year Ended June 30, 2014**

	Budget				Variance Favorable
	Original	Amendments	Final	Actual	(Unfavorable)
REVENUES					
Taxes:					
Sales	\$ 11,370,000	\$ -	\$ 11,370,000	\$ 11,689,495	\$ 319,495
Property	1,658,500	-	1,658,500	1,795,170	136,670
Franchise	1,290,000	-	1,290,000	1,439,803	149,803
Licenses and permits	933,400	-	933,400	1,009,860	76,460
Intergovernmental	1,088,500	33,045	1,121,545	1,056,401	(65,144)
Charges for services	1,726,000	-	1,726,000	1,650,373	(75,627)
Fines and forfeitures	123,500	-	123,500	173,098	49,598
Investment earnings	50,800	-	50,800	19,961	(30,839)
Other	167,250	-	167,250	378,026	210,776
Total Revenues	18,407,950	33,045	18,440,995	19,212,187	771,192
EXPENDITURES					
Current:					
General Government:					
General and administrative	2,935,352	-	2,935,352	2,926,356	8,996
Animal control	293,239	-	293,239	284,749	8,490
Code enforcement	129,068	-	129,068	122,093	6,975
Shop	339,555	-	339,555	357,371	(17,816)
Public safety:		-			
Police	5,360,542	74,900	5,435,442	5,364,606	70,836
Fire	5,197,495	79,900	5,277,395	4,978,311	299,084
Inspection	447,238	-	447,238	474,829	(27,591)
Streets and grounds	4,029,906	-	4,029,906	3,937,965	91,941
Total Expenditures	18,732,395	154,800	18,887,195	18,446,280	440,915
Excess (deficiency) of revenues over expenditures	(324,445)	(121,755)	(446,200)	765,907	1,212,107
OTHER FINANCING SOURCES (USES)					
Transfers in (out)	(45,000)	(425,000)	(470,000)	(466,890)	3,110
Total other financing sources (uses)	(45,000)	(425,000)	(470,000)	(466,890)	3,110
Net change in fund balance	(369,445)	(546,755)	(916,200)	299,017	1,215,217
Fund balance - beginning, as previously reported	7,630,407		7,630,407	7,630,407	-
Prior period adjustment	139,567		139,567	139,567	-
Fund balance - beginning, as restated	7,769,974		7,769,974	7,769,974	-
Fund balance, ending	\$ 7,400,529		\$ 6,853,774	\$ 8,068,991	\$ 1,215,217

The notes to the financial statements are an integral part of this statement.

CITY OF SULPHUR, LOUISIANA

**OTHER POSTEMPLOYMENT BENEFITS (OPEB)
SCHEDULE OF FUNDING PROGRESS
For The Year Ended June 30, 2014**

Actuarial Valuation Date	Actuarial valuation of assets	Actuarial Accrued Liability Unit Credit	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2008	-	\$ 16,679,604	\$ 16,679,604	0.0%	\$ 9,671,106	172.5%
7/1/2010	-	\$ 25,903,348	\$ 25,903,348	0.0%	\$ 9,379,696	276.2%
7/1/2012	-	\$ 22,993,288	\$ 22,993,288	0.0%	\$ 9,026,000	254.7%

The notes to financial statements are an integral part of this statement.

OTHER SUPPLEMENTAL INFORMATION

CITY OF SULPHUR, LOUISIANA

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

June 30, 2014

	Debt Service Funds	Drug Seizure Funds	Nonmajor Governmental Funds Total
ASSETS			
Cash and cash equivalents	\$ 101,314	\$ 616,737	\$ 718,051
Receivables (net of allowance for uncollectibles)	196,853	-	196,853
Intergovernmental	-	-	-
Total assets	<u>\$ 298,167</u>	<u>\$ 616,737</u>	<u>\$ 914,904</u>
LIABILITIES			
Accounts payable	\$ -	\$ 178	\$ 178
Total liabilities	<u>-</u>	<u>178</u>	<u>178</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue-special assessments	196,853	-	196,853
Total deferred inflow of resources	<u>196,853</u>	<u>-</u>	<u>196,853</u>
FUND BALANCES			
Restricted:			
Debt service reserves	101,314	-	101,314
Law enforcement	-	616,559	616,559
Total fund balance	<u>101,314</u>	<u>616,559</u>	<u>717,873</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 298,167</u>	<u>\$ 616,737</u>	<u>\$ 914,904</u>

The notes to financial statements are an integral part of this statement.

CITY OF SULPHUR, LOUISIANA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For The Year Ended June 30, 2014**

	Debt Service Funds	Special Revenue Funds	Nonmajor Governmental Funds Total
REVENUES			
Fines and forfeitures	\$ -	\$ 213,482	\$ 213,482
Assessment levies	103,553	-	103,553
Investment earnings	417	2,352	2,769
Interest on assessments	17,247	-	17,247
Other income	-	85	85
Total revenues	<u>121,217</u>	<u>215,919</u>	<u>337,136</u>
EXPENDITURES			
Police	-	59,347	59,347
Debt service:			
Principal retirement	59,161	-	59,161
Interest and fiscal charges	13,238	-	13,238
Total expenditures	<u>72,399</u>	<u>59,347</u>	<u>131,746</u>
Excess (deficiency) of revenues over expenditures	<u>48,818</u>	<u>156,572</u>	<u>205,390</u>
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	(3,110)	-	(3,110)
Total other financing sources and (uses)	<u>(3,110)</u>	<u>-</u>	<u>(3,110)</u>
Net change in fund balances	45,708	156,572	202,280
Fund balances, beginning	55,606	459,987	515,593
Fund balances, ending	<u><u>\$ 101,314</u></u>	<u><u>\$ 616,559</u></u>	<u><u>\$ 717,873</u></u>

The notes to financial statements are an integral part of this statement.

COMPLIANCE AND INTERNAL CONTROL REPORTS

STEVEN M. DEROUEN & ASSOCIATES

Certified Public Accountants

4827 IHLES ROAD
P. O. BOX 4265
LAKE CHARLES, LA 70606
(337) 513-4915 OFFICE/ (337) 205-6927 FAX
steve@jderouen CPA.com

Member American Institute of
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Chris Duncan, Mayor
And City Council Members
City of Sulphur, Louisiana

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Sulphur, Louisiana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise City of Sulphur, Louisiana's basic financial statements, and have issued our report thereon dated December 16, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, I considered City of Sulphur, Louisiana's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Sulphur, Louisiana's internal control. Accordingly, I do not express an opinion on the effectiveness of City of Sulphur, Louisiana's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Sulphur, Louisiana's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, I do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Steven M. DeRouen & Associates

Lake Charles, Louisiana
December 16, 2014

STEVEN M. DEROUEN & ASSOCIATES

Certified Public Accountants

4827 IHLES ROAD
P. O. BOX 4265
LAKE CHARLES, LA 70606
(337) 513-4915 OFFICE/ (337) 205-6927 FAX
steve@sderouen CPA.com

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Honorable Chris Duncan, Mayor
And City Council Members
City of Sulphur, Louisiana

Report on Compliance for Each Major Federal Program

I have audited City of Sulphur, Louisiana's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Sulphur, Louisiana's major federal programs for the year ended June 30, 2014. City of Sulphur, Louisiana's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of City of Sulphur, Louisiana's major federal programs based on our audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Sulphur, Louisiana's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of City of Sulphur, Louisiana's compliance.

Opinion on Each Major Federal Program

In my opinion, City of Sulphur, Louisiana, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of City of Sulphur, Louisiana, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered City of Sulphur, Louisiana's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of City of Sulphur, Louisiana's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Steven M. DeRouen & Associates

Lake Charles, Louisiana
December 16, 2014

CITY OF SULPHUR, LOUISIANA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2014**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Federal Expenditures</u>
United States Department of Transportation-			
Federal Highway Administration			
Passed through the State of Louisiana:			
Federal Aid Highway Program*	20.205	N/A	\$ 1,016,033
United States Department of Housing and Urban Development -			
Community Development Block Grant Program			
Passed through the State of Louisiana:			
CDBG Disaster Recovery Program	14.228	N/A	211,930
Department of Justice - Office of Justice Programs		N/A	36,441
United States Department of Homeland Security -			
Homeland Security Grant Program			
Passed through the State of Louisiana:			
Governor's Office of Home Land Security	97.067	N/A	<u>33,046</u>
Total expenditures of federal awards			<u><u>\$ 1,297,450</u></u>

* Denotes major Federal program

The notes to financial statements are an integral part of this statement.

CITY OF SULPHUR, LOUISIANA

Notes to the Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2014

NOTE 1 – GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the City of Sulphur, Sulphur, Louisiana. The City of Sulphur (the “City”) reporting entity is defined in Note 1 to the City’s financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

NOTE 2 – BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the City’s financial statements.

NOTE 3 – RELATIONSHIP TO FINANCIAL STATEMENTS

Federal awards expenditures are reported in the City’s financial statements as follows:

General Fund	\$ 69,487.00
Public Improvement Capital Project Fund	211,930
Street Improvement Capital Project Fund	<u>1,016,033</u>
	<u><u>\$ 1,297,450.00</u></u>

NOTE 4 – RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying schedule agree with the amounts reported in the related federal financial reports except for changes made to reflect amounts in accordance with accounting principles generally accepted in the United States of America.

NOTE 5 – MATCHING REVENUES

For those funds that have matching revenues and state funding, federal expenditures were determined by deducting matching revenues from total expenditures.

CITY OF SULPHUR, LOUISIANA
Schedule of Findings and Questioned Cost
Year Ended June 30, 2014

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued

Unmodified on
Primary
Government;
Adverse on
Aggregate
Discretely
Presented
Component Units

Internal control over financial reporting:

Material weaknesses identified?	_____	Yes	_____	<u>x</u>	No
Significant deficiencies identified not considered to be material weaknesses?	_____	Yes	_____	<u>x</u>	None reported
Noncompliance material to financial statements noted?	_____	Yes	_____	<u>x</u>	No

Federal Awards

Internal control over major programs:

Material weaknesses identified?	_____	Yes	_____	<u>x</u>	No
Significant deficiencies identified not considered to be material weaknesses?	_____	Yes	_____	<u>x</u>	None reported

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510 (a)?

_____	Yes	_____	<u>x</u>	No
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Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
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20.205	US Department of Transportation Federal Highway Administration Passed through the State of Louisiana Federal Aid Highway Program
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Dollar threshold used to distinguish between

Type A and Type B programs:	<u>\$300,000</u>
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Auditee qualified as low-risk auditee?

_____	Yes	_____	<u>X</u>	No
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CITY OF SULPHUR, LOUISIANA
Corrective Action Plan for Current Year Findings
Year Ended June 30, 2014

Internal Control:

None noted.

Compliance:

None noted.

CITY OF SULPHUR, LOUISIANA
Schedule of Prior Year Findings
Year Ended June 30, 2013

Section I – Internal Control and Compliance Material to the Financial Statements – none.

Section II – Internal Control and Compliance Material to Federal Awards- none reported.

Section III – Management Letter. The prior year report did not include a management letter.